

VZCZCXYZ0009
RR RUEHWEB

DE RUEHBU #1398/01 2832030
ZNR UUUUU ZZH
R 092030Z OCT 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 2219
RUCNMER/MERCOSUR COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC

UNCLAS BUENOS AIRES 001398

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [AR](#)
SUBJECT: Argentina Structures Modest Development Bank on Brazil
BNDES Model

Ref: Sao Paulo 522
Buenos Aires 1374

Summary

¶1. (SBU) Former Economy Minister Miguel Peirano is now working to transform Argentina's state-owned Bank for Commerce and External Trade (BICE) into a development bank on the model of Brazil's BNDES. He argues that countries with such unstable economic and financial histories as Argentina and Brazil need state development bank institutions to provide the kinds of long-term infrastructure finance that would otherwise be unavailable from private sector sources. Peirano is seeking substantial new capital and long-term loan financing in the US\$500 - \$600 million range from regional development bank CAF and from the IDB, but does not see BICE growing into the sort of behemoth that BNDES has become. Nor does he see BICE challenging the hegemony of Argentina's two major state-owned lending banks, Banco de la Nacion and Banco de la Provincia de Buenos Aires. Instead, BICE will focus on "cautious" long-term lending of 8-10 year money to Argentine private and public sector projects, primarily through other Argentine banks to use their management, credit analysis resources, and branch networks as force multipliers. Peirano called "pragmatic" the GoA's establishment of Coordinating Table to organize GoA-wide management of currency, trade, budget, and debt policies in response to the international financial crisis. A long-time promoter of building and protecting Argentina's industrial capacity, Peirano favors a "competitive" Argentine currency in the face of recent devaluations of the Brazilian real. End Summary.

Former Economy Minister to Build Development Bank

¶2. (SBU) In an October 7 meeting with Ambassador, former Economy Minister and current Banco de Inversion y Comercio Exterior (BICE) President Miguel Peirano reviewed his efforts to transform this little known state-owned entity into a substantial development bank that will help meet Argentine industry's need for long term capital.

¶3. (SBU) BICE is a public entity created in 1991 with a mandate to finance productive investment, infrastructure and trade. Under Argentine financial regulation, it is "second-story" financial entity, authorized to conduct all commercial banking activities with the exception of taking deposits. It finances its longer-term lending via issues of debt securities and credit lines from other banks and IFIs. BICE is currently a small player in Argentina's financial system: with total assets (as of May 2008) of +/- US\$ 500 million, it holds only 0.5% of total financial system assets. Peirano highlighted that BICE holds one of the lowest loan delinquency rates in the Argentine banking system.

¶4. (SBU) Peirano outlined ambitious plans to substantially boost BICE's domestic profile by seeking substantial new capital and long term loan financing in the US\$500 - \$600 million range. He plans to seek the funding mainly from regional development bank CAF (Corporacion Andina de Fomento) and the Inter-American Development Bank (IDB). The Development Bank of China, Peirano noted, had just provided BICE with US\$ 35 million in unconditioned long-term funding (10-year at Libor) for on-lending to Argentine companies.

Molding Development Bank on BNDES Model

¶5. (SBU) Peirano hopes to build BICE into an Argentine development bank on the Brazilian Banco Nacional de Desenvolvimento (BNDES) model. He recalled that President Cristina Fernandez de Kirchner and Brazilian President Lula da Silva had signed agreements during September meetings in Buenos Aires that called for joint financing of bilateral integration projects. Following this accord, Peirano said he met with his BNDES counterpart to set up regional integration project financing working groups.

¶6. (SBU) Countries with such unstable economic and financial histories such as Argentina and Brazil need state development bank institutions to provide the kinds of long term infrastructure finance that would otherwise be unavailable from private sector sources, Peirano said. Given their very short term deposit base, he said, private Argentine banks are only willing to lend out 3-4 years, an inadequate tenor to support investment in new plant and capital equipment.

¶7. (SBU) Peirano does not see BICE growing into the sort of behemoth that BNDES has become - he noted that BNDES had extended over US\$50

billion in credits over the past year. (Ref A notes BNDES disbursed a full 17% of total credits in Brazil in 2007, 40% for infrastructure projects, and 30% for private sector manufacturing and industrial projects.) Nor does Peirano see BICE challenging the hegemony of Argentina's two major state-owned lending banks, Banco de la Nacion (federally owned) and Banco de la Provincia de Buenos Aires (provincially owned), which together account for 35% of system deposits and 20% of total lending in Argentina. Instead, he said, BICE will focus on "cautious" long-term lending of 8-10 year money to support Argentine private and public sector infrastructure and industrial development projects.

¶8. (SBU) Peirano plans to do this primarily through other Argentine banks, in order to use their management, credit analysis resources, and branch networks as force multipliers. "Reasonable" interest rates would be subsidized by retained earnings. In answer to Ambassador's questions on lessons learned from the failure of Argentina's earlier development bank BANADE (Banca Nacional de Desarrollo), Peirano agreed that asset concentration and corruption were contributing factors to BANADE's demise. (BANADE, created in 1970, was liquidated in 1993 due to solvency and financial problems.

BANADE was implicated in corruption scandals and had a portfolio of unpaid loans in judicial process for ARP 5.7 billion, of which a full 60% were concentrated in only 20 companies. In October 2005, Banade was finally closed via a resolution from then-Economy Minister Lavagna.)

Peirano on GoA's Financial Crisis Management

¶9. (SBU) Peirano called "pragmatic" the GoA's move to establish an inter-agency "Coordinating Table" chaired by Chief of Cabinet Sergio Massa. The group, to include senior Economy Ministry, Central Bank, and financial sector regulatory officials, will organize GoA-wide management of currency, trade, budget, and debt policies in response to the international financial crisis. "Better a coordinating table than a crisis committee, no?" he quipped. Peirano made clear he favored a "competitive" Argentine currency in the face of recent devaluations of the Brazilian real (Ref B). He called China's huge trade and capital flows a "threat" to global markets and called for a new global financial regulatory system to monitor and control potentially destabilizing capital flows.

¶10. (SBU) Finally, Peirano noted his warm relations with the U.S. Embassy, first as Industries Secretary, later as Economy Minister and currently as BICE President. "Argentina has got to stay close to the United States and Brazil - I've always said this."

Peirano Background and Bio Material

¶11. (SBU) Miguel Peirano was appointed to head BICE (Banco de Inversión y Comercio Exterior) in April 2008. Prior to that he served as Minister of Economy from July - December 2007, elevated from his Secretary of Industry post to replace the scandal-weakened Felicia Miceli. Analysts agreed that Peirano was selected for the Minister position as a loyal, non-controversial placeholder to see the Kirchner administration through to October 2007 elections and to signal continuity of the GoA's signature economic policy formula that promotes consumption-led growth (via price controls and subsidies) and protects job-creating industrial development (via "administered" trade and a "competitive" undervalued currency). In a cabinet increasingly riven by factional strife between Planning Minister De Vido and then-Chief of Cabinet Fernandez, Peirano was reportedly on good terms with all key inner-circle players, including De Vido, Fernandez, Presidential Legal Secretary Zannini, and Central Bank Governor Redrado. Although initially touted as the lead candidate for Economy Minister in the follow-on a Cristina Fernandez de Kirchner administration, Peirano resigned in December 2007 after publicly battling with Internal Commerce Secretary Guillermo Moreno over control of Argentine national statistics agency INDEC.

¶12. (SBU) As Economy Minister, Peirano retained the majority of the Economy Ministry's appointed lieutenants and publicly affirmed key GoA economic policy tenets. He called widely questioned lowball official inflation statistics "credible," the energy crisis "manageable," and protection of Argentina's growing industrial base "fundamental" to the nation's welfare. Young (43), single, and a reputed workaholic, Peirano shares a strong industrial policy bias with Planning Minister De Vido. He was previously well known to the Embassy's Economic Section from his tenure as the Economy Ministry's Industry Secretary, where his mandate was to promote the rapid growth and consolidation of Argentina's industrial base by shielding it from international competition via a hard line on WTO Doha NAMA trade negotiations and by policing a series of "voluntary" private

sector and otherwise managed trade agreements with Mercosur neighbors. In discussions with EconCouns, Peirano's points were: (1) Argentina requires a diverse and deep industrial base to increase domestic value-added and decrease Argentina's dependence on primary commodity (primarily agricultural) exports; (2) current high global commodity prices are a probably transient phenomena to be enjoyed and exploited via high export tariffs on primary commodity exports. These windfall revenues are providing the GoA the wherewithal to provide targeted subsidies to develop this industry. These subsidies, including domestic energy prices well below world market levels, combine with a dedicated policy to maintain Argentina's currency. A strong industrial base, in Peirano's view, is the key to improving the terms of trade that will see middle income Argentina increase its wealth base to eventually graduate into the ranks of developed nations.

¶13. (SBU) Prior to entering the Ministry in 2003 under ex-Economy Minister Roberto Lavagna, Peirano served as an economic advisor to the powerful Argentine Industrial Union (UIA), whose senior membership -- a "who's who" of Argentina's industrial oligarchy -- celebrated his ascension. While at UIA, Peirano also worked as an advisor to the chamber of footwear (1996-1999) and the chamber of wood products (1999-2001). Peirano has advised the Banco de la Provincia de Buenos Aires Board (1999-2001), the City of Buenos Aires Government's Directorate of Industry (1997-1998) and the Buenos Aires City Business Association (1998-2000). After graduating with honors in Economics in the early 1990s from the Universidad Nacional de Buenos Aires (UBA), he worked on financial issues at Techint International for two years.

WAYNE